

South Lanarkshire Council

Audit Plan 2019/20



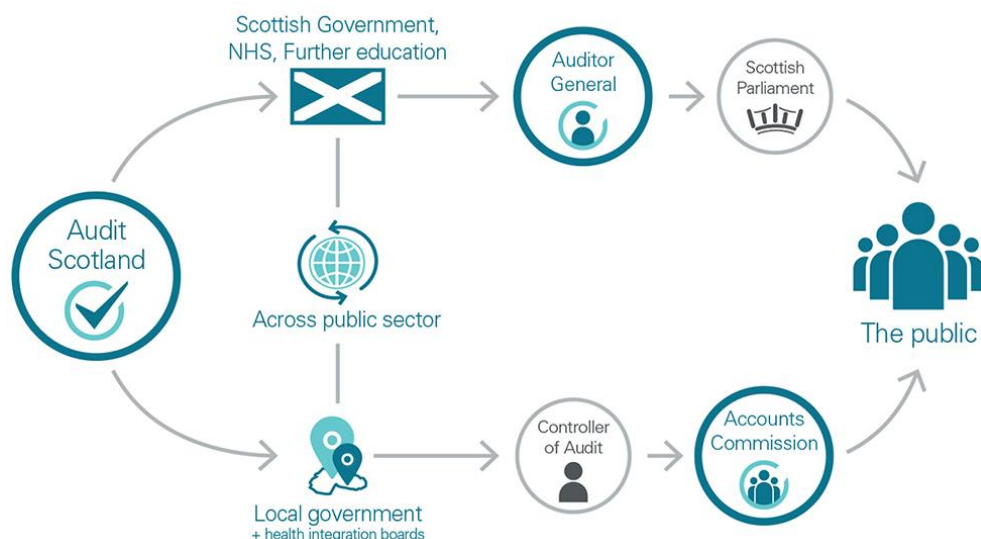
 AUDIT SCOTLAND

Prepared for South Lanarkshire Council
January 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of South Lanarkshire Council for 2019/20. Our audit is carried out in accordance with International Standards on Auditing and the [Code of Audit Practice](#) issued by Audit Scotland.
2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit. The wider scope of public audit includes assessing arrangements for financial sustainability, financial management, governance and transparency, and value for money. We make a public report of conclusions on these matters in our annual audit report to members and the Controller of Audit.
3. We seek to add value to the council by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the council promote improved standards, better management and decision-making, and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for South Lanarkshire Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks are set out at [exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit risk	Source of management assurance	Planned audit work
Financial statements risks		
1 Risk of management override of controls Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.	In view of the nature of this risk, assurances from management are not appropriate.	- Detailed testing of journal entries. - Review of accounting estimates. - Focused testing of accruals and prepayments. - Evaluation of significant transactions that are outside the normal course of business.

	Audit risk	Source of management assurance	Planned audit work
2	Risk fraud over income recognition. Auditing standards assert that fraud over income should be presumed to be a significant risk in any audit.	• Most income is received via electronic payment. • Robust controls over the receipt of other income.	• Testing the operation of key controls over council tax, non-domestic rate and housing rent income. • Detailed testing of income transactions. • Analytical procedures on income streams.
3	Risk of fraud over expenditure Auditing standards assert that fraud over expenditure should be presumed to be a significant risk in any audit.	• Involvement in National Fraud Initiative. • Robust controls over expenditure streams. • Emphasis on fraud awareness in expenditure streams • Review of system controls and focus on standing data • Internal audit review of procurement.	• Audit work on the National Fraud Initiative matches. • Walkthrough of controls over expenditure systems. • Reliance on internal audit's review into procurement. • Audit of grants. • Detailed testing of expenditure transactions focusing on the areas of greatest risk • Analytical procedures on expenditure streams.
4	Estimation and judgments There is a significant degree of subjectivity in the measurement and valuation of some significant balance sheet assets/liabilities. • Valuations on non-current assets rely on expert valuations and management assumptions. • The value of the council's pension liability is an estimate based on information provided by management and actuarial assumptions. • The council's provision for doubtful debts is based on management assessments of the recoverability of debts.	• Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. • Pension Fund valuation completed by a qualified actuary with the applicability of actuarial assumptions used reviewed by council officers. • Provision for doubtful debts based on aged debt approach, incorporating prior year experience.	• Review of the work of the valuer and actuary. • Focused substantive testing of classification and valuation of assets. • Review appropriateness of actuarial assumptions. • Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts. • Review the provision for doubtful debts to assess whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience. • Review actual experience of significant estimates made in the prior year.

Risk

Valuations of assets /liabilities are materially misstated.

	Audit risk	Source of management assurance	Planned audit work
Wider dimension risks			
5	2020/21 budget setting The timing of budget setting for the UK and Scottish public sector has led to increased uncertainty for councils in setting their 2020/21 budgets and council tax. Risk Budget does not reflect the final settlement and further in-year savings need to be made. Council tax level is not set by statutory date of 11 March.	• The council received its grant settlement on 6 February, and this will allow the council to set its council tax, and budget for the coming year. • The grant letter stated that the Scottish Government (SG) has taken a cautious approach to the settlement as they await their budget from the UK Government. If the settlement from the UK Government is significantly different from the assumptions the SG have made, they may need to reconsider the allocations provided in the Local Government settlement letter.	• Review of the council's 2020/21 budget setting arrangements.
6	Revenue budget – loans charges and council tax income Loans charges and council tax income are set and controlled at corporate level. In the previous three years we reported on a trend of underspends in loan charges and greater than budgeted council tax income. These elements have contributed substantially to the unplanned accumulation of reserves. The most recent revenue budget monitoring report (up to period 9) projects a year end underspend of £8.512 million for loans charges and an over recovery of council tax, including the council tax reduction scheme, of £4.345 million. Risk These budget lines continue to have excess budget allocated to them potentially denying the use of resources elsewhere.	• The budget set for 2019/20 in early 2019 reflects best known information at the point when the budget is set. The budget set is prudent and is monitored throughout the year. Committee have been kept advised throughout the year of the expected position. • For Council Tax, the budget for 2019/20 reflects estimated council tax from additional properties. Since November 2019 we have been advising committee that an over-recovery as expected and a full explanation of all areas of underspend was provided in January to the Executive Committee. • The 2019/20 in-year over-recovery reflects a number of areas including: ➢ additional properties that have come online earlier than anticipated (£1.3m). Additional budget has been included for 2020/21. ➢ Additional income for second homes for which spend is committed elsewhere in the council in line with complying with the Accounting Code (£0.5m).	• Review financial monitoring reports and the year end outturn against budget.

	Audit risk	Source of management assurance	Planned audit work
		➤ Higher than anticipated additional income for long term empty properties of £0.4m. This is the first year that additional council tax has been collected. ➤ Higher than budgeted council tax arrears of £1.3m. As arrears are variable the level of budget is set at a prudent level. ➤ Lower than budgeted Council Tax Reduction Scheme of £0.8m. This is variable and impacted by the impact of the rollout of Universal Credit. • The Loan Charges budget underspend reflects mainly the impact of the re-phasing of debt carried out at the start of the financial year. This decision was approved by Executive Committee in June 2019. The financial impact of this (being an underspend of £5.5m) has been reported every period since then. • Further reported underspends of £1m reflect better interest rates achieved when borrowing was taken in 2018/19. Members agreed in June to use this £6.5m underspend to support the 2020/21 budget strategy. • A decision to delay borrowing in 2019/20 resulted in a further temporary underspend of £1.1m Again, the financial impact in the budget has been reported to members since November 2019. • In January a further underspend of £0.9m was reported which reflects deposit interest this year. The level of budgeted interest is prudently low reflecting the low risk approach to making deposits.	

	Audit risk	Source of management assurance	Planned audit work
7	Extending Loans Fund repayment periods In 2018/19, the council extended the repayment periods for a number of loans. A business case was prepared to support the extension proposal. A summary of the business case was included in the final outturn report submitted to members. The full business case was not provided to members. Management have advised that further reviews of loan fund repayment periods are envisaged during the current financial year. Risk There is a risk that members are not provided with an adequate level of information to allow them to scrutinise and challenge loan extension proposals.	The ongoing work to re-profile the council's debt has been reflected in Committee reports this financial year. When the work is complete, members will be presented with a business case to explain the rationale and the full financial impact of re-profiling debt.	- Review the information provided to members. - Confirm reprofiled loans are correctly reflected within the 2019/20 accounts.

Source: Audit Scotland

The audit of charities administered by South Lanarkshire Council

5. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts and require an accompanying auditor's report. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. A full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

6. Members of South Lanarkshire Council are sole trustees for three registered Scottish charities, with combined assets of some £1.187 million. Based on our discussions with management and initial planning work undertaken, we have identified the audit risk set out at [exhibit 2](#).

Exhibit 2

2019/20 Significant audit risks

	Audit risk	Source of management assurance	Planned audit work
1	Governance documentation Following our recommendations in previous years, the council has prepared and approved new arrangements for the administration of the three charitable trusts under its control. The new arrangements were approved by the Office of the Scottish Charity Regulator (OSCR) in December 2019. However, given the tight timescale to implement these changes, it is unlikely they will take effect until 2020/21. Risk Governance arrangements are weak and current arrangements inhibit the distribution of funds for public benefit.	OSCR has approved the establishment of the new modernised trust funds. Legal Services are now working on obtaining approval from OSCR to transfer the balances of the old trust funds into the modernised trust funds. It is anticipated that this will not complete until 2020/2021. Administration of the trust funds during 2019/2020 will be on existing arrangements.	- Liaise with officers during the process of updating and replacing trust deeds. - Review the updated documentation when available.

Source: Audit Scotland

Grant claims and returns

7. The council is required to make various grant claims and returns to UK or Scottish Government departments. Such claims and returns require to be audited prior to submission. We will perform testing and provide audit certificates in accordance with guidance issued by Audit Scotland. We have planned for the following claims and returns in 2019/20:

- Housing benefit subsidy claim
- Non-domestic rate income return
- Education maintenance allowances
- Whole of government accounts return

Where unexpected claims or returns are received or supporting working papers are not adequate, a supplementary fee may be requested.

Reporting arrangements

8. This audit plan, the outputs set out at [exhibit 3](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

9. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy, prior to the issue and publication of final reports.

10. We will provide an independent auditor's report to the members of South Lanarkshire Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide members and the Controller of Audit with an annual audit report, containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 3

2019/20 Audit outputs

Audit Output	Target date	Risk and Audit Scrutiny Committee Date
Interim Management Report	31 May	18 June
Annual Audit Report	30 September	21 September
Independent Auditor's Report	30 September	21 September

The target dates included are those specified in Audit Scotland's Planning Guidance 2019/20.

Audit fee

11. The agreed audit fee for the 2019/20 audit of South Lanarkshire Council is £498,970 (2018/19 fee £490,110). In determining the audit fee, we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

12. We have also agreed an audit fee for the audit of the three registered charities of £5,425 (£5,425 in 2018/19).

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or inadequate working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Risk and Audit Scrutiny Committee and Executive Director of Finance and Corporate Resources

14. Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity. In South Lanarkshire Council the Executive Director of Finance and Corporate Resources is the proper officer, with responsibility for the administration financial affairs (section 95 officer). The council has delegated responsibility for the oversight of internal and external audit to its Risk and Audit Scrutiny Committee.

15. The audit of the annual accounts does not relieve management or the Risk and Audit Scrutiny Committee of their responsibilities.

Appointed auditor

16. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice and the auditing profession's ethical guidance.

17. Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts.

Audit scope and timing

Annual accounts

18. The audit of the annual accounts will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing local government and the wider public sector. Our audit approach includes:

- understanding the business of South Lanarkshire Council and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include them in the financial statements
- assessing how weaknesses in the key systems of internal control could impact on the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free from material misstatement.

19. We will give an opinion on whether:

- the annual accounts give a true and fair view of the state of affairs of the council and the income and expenditure for the year
- the annual accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
- the annual accounts have been prepared in accordance with relevant legislation.



characteristics



responsibilities



£
principal activities



risks



governance
arrangements

Other information in the annual accounts

20. We also review and report on the management commentary, governance statement and remuneration report. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

Materiality

21. We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 4](#).

Exhibit 4

Materiality levels

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the audited accounts for the year ended 31 March 2019.	£12.205 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£6.100 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 1% of planning materiality.	£0.120 million

Source: Audit Scotland

22. We set separate materiality levels for the audits of the charities' annual accounts, [exhibit 5](#).

Exhibit 5

Trust materiality levels

Trust	Planning materiality*	Performance materiality	Reporting threshold**
South Lanarkshire Council Charitable Trusts	£11,500	£8,500	£100
South Lanarkshire Council Educational Trusts	£1,500	£1,000	£100
East Kilbride Technology Centre Trust	£300	£200	£100

* Based on the latest audited accounts and set at 1% total funds for the year ended 31 March 2019, rounded up as considered appropriate. ** In view of the amounts involved, we have set the reporting threshold at £100.

Timetable

23. An agreed timetable is included at [exhibit 6](#) which takes account of submission requirements and planned Risk and Audit Scrutiny Committee meeting dates.

Exhibit 6

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	18 June
Latest submission date of unaudited annual accounts	30 June
Latest date for final clearance meeting with officers	4 September
Agreement of unsigned financial statements	9 September
Issue of Annual Audit Report*	21 September
Independent Auditor's Reports (council and three charities)	21 September

* ISA 260 issues arising from the audit of charitable trusts will be reported in a separate section of the council's annual audit report. However, a separate independent auditor's report will be issued for each of the three charitable trusts.

Internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function at audited bodies.

25. South Lanarkshire Council's internal audit function is provided by its internal audit section led by the Audit and Compliance Manager. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

26. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Procurement
- BACs reconciliation

27. In respect of our wider dimension audit responsibilities we plan to consider the work of internal audit in respect of the National Fraud Initiative.

Audit dimensions

28. Our audit is based on four audit dimensions which define the wider scope of public sector audit, [exhibit 7](#). Our conclusions on the four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 7

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

29. We consider the appropriateness of the use of the going concern basis of accounting as part of the audit of the financial statements. We also comment on the council's financial sustainability. We will carry out work and conclude on the following in 2019/20:

- the effectiveness of financial planning
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- monitoring the arrangements put in place by the council to minimise any disruption occasioned by the UK's withdrawal from the European Union.

Financial management

30. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review and report on:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established
- consideration of the effectiveness of the council's controls and policies in preventing procurement fraud.

Governance and transparency

31. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will assess:

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports

- the quality and timeliness of financial and performance reporting
- whether governance arrangements are appropriate and operating effectively
- the quality and timeliness of financial and performance reporting.

Value for money

32. Value for money refers to using resources efficiency and effectively. We will review, conclude and report on whether the council can provide evidence that it is demonstrating value for money in the use of its resources.

Best Value

33. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in a five-year period.

34. During 2018/19 a Best Value review of the council was completed. The [South Lanarkshire Council BVAR](#) was published March 2019. The focus of our audit work this year is to report on the council's response to the report and progress made with the Best Value [action plan](#) approved by the council in June 2019.

35. In addition to assessing progress against the Best Value action plan, we will also:

- review the council's arrangements covering fairness and equality.
- complaints handling procedures
- website accessibility.

The results of this work will be reported in our Annual Audit Report.

36. The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [exhibit 8](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

Exhibit 8

2019/20 Best Value Assurance Reports



Aberdeenshire Council

Dundee Council

Argyle and Bute Council

Falkirk Council

City of Edinburgh Council

Moray Council

North Ayrshire Council

Source: Audit Scotland

Shared risk assessment of the Local Area Network

37. As part of our planning work we held a shared risk assessment meeting with the key scrutiny bodies of the council. We discussed the range of reports, published over the past year by scrutiny bodies including Education Scotland and the Care Inspectorate. Of particular note is the Care Inspectorate's reports on care at home services in Hamilton, which resulted in the service being served with an Improvement Notice. An urgent improvement plan is being implemented and progress against this will be monitored by the Care Inspectorate.

Contribution to national performance audits

38. As part of our 2019/20 audit activity we may be required to carry out limited work to assess the local impact of recent national audit reports on:

- Council's use of arm's-length organisations ([published](#) May 2018)
- Children and young people's mental health ([published](#) September 2018)

Independence and objectivity

39. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

40. The engagement lead for South Lanarkshire Council is Fiona Mitchell-Knight, Assistant Director. The engagement lead for the charitable trusts is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of South Lanarkshire Council or the charitable trusts.

Quality control

41. International Standard on Quality Control (UK and Ireland) 1 requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

42. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal and external quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) has been engaged to carry out an annual programme of external quality reviews.

43. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead or to Audit Scotland's Audit Quality and Appointments group.

South Lanarkshire Council

Audit Plan 2019/20

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